J.C. Penney Company, Inc.
1986 Annual Report

JCPenney achieved outstanding results in 1986. All of our major activities—JCPenney stores, catalog, drug stores, and financial services—improved their earnings and contributed to the Company's record income. Supporting this performance was our emphasis on quality, value, service, and expense control. In this, our 85th year, we look to the past to put the present in perspective and we recommit ourselves to serving the American consumer.

J.C. Penney Company, Inc.
1986 Annual Report

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This is JCPenney

JCPenney is a major retailer, with stores in all 50 states, Puerto Rico, and Belgium. The dominant portion of the Company's business consists of providing merchandise and services to consumers through stores, including catalog operations. The Company markets family apparel, home furnishings, leisure lines, drug store merchandise, and insurance.

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 A.M., Friday, May 29, 1987, at the Sheraton Park Central Hotel in Dallas, Texas. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 20, 1987.

From the earliest years, JCPenney's advertising circulars have served as catalogs, with customers invited to order by mail. A good example is provided by the "Store News and Fall Catalog" of 1928, which is seen here along with some of the three dozen "big book," specialty, and sales catalogs that we publish today.

Established in 1963, our catalog operation regularly serves millions of customers, who in 1986 purchased a record setting $2.3 billion of merchandise. Virtually all of our orders—and we processed almost 8 million more than in 1985—were handled by our 14 telephone centers and delivered within 48 hours. With costs tightly controlled, catalog more than doubled its profits over the preceding year's level. For their outstanding productivity and effectiveness in providing quality, value, and service, we pay tribute this year to the 16,000 catalog associates and all those JCPenney people who made this performance possible.

To Our Stockholders:

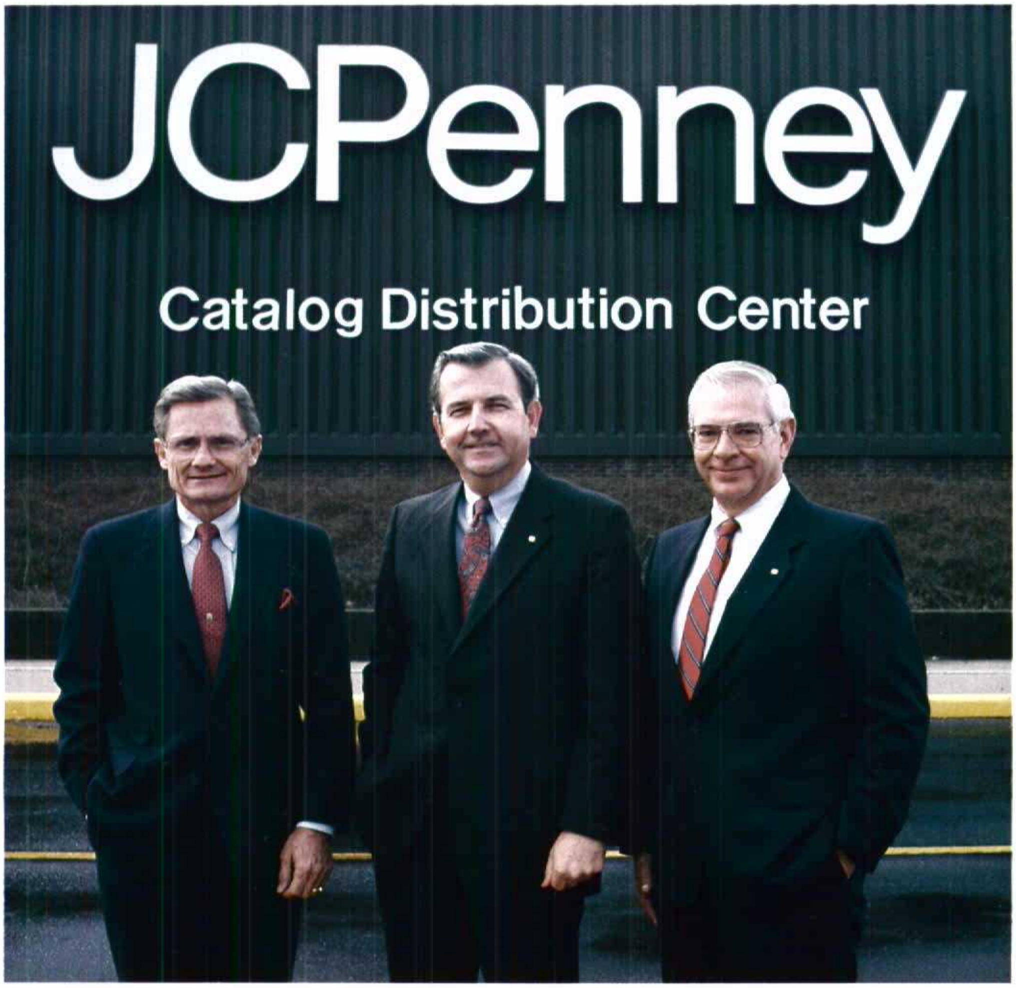
For JCPenney, 1986 was a year of record earnings and sales. The Company's income before an extraordinary charge rose to $530 million, 33.5 per cent above the $397 million earned in 1985. Earnings per share amounted to $7.06, as compared with $5.31 in the prior year. The fine results of the Company's retail divisions reflected the overall emphasis on inventory management, expense control, and selective promotional activity and the particularly strong performance of catalog operations.

Sales for the year reached a new high of $14.7 billion, a gain of $993 million, or 7.2 per cent. Sales were generally strong throughout most of 1986, but year to year gains were modest relative to the general merchandise industry during the fourth quarter. This was a consequence of our strategy to promote items more selectively and emphasize those lines which the consumer looks for in our stores and which give us superior profit opportunities. Our areas of concentration continue to be women's, men's, and children's apparel and soft home furnishings.

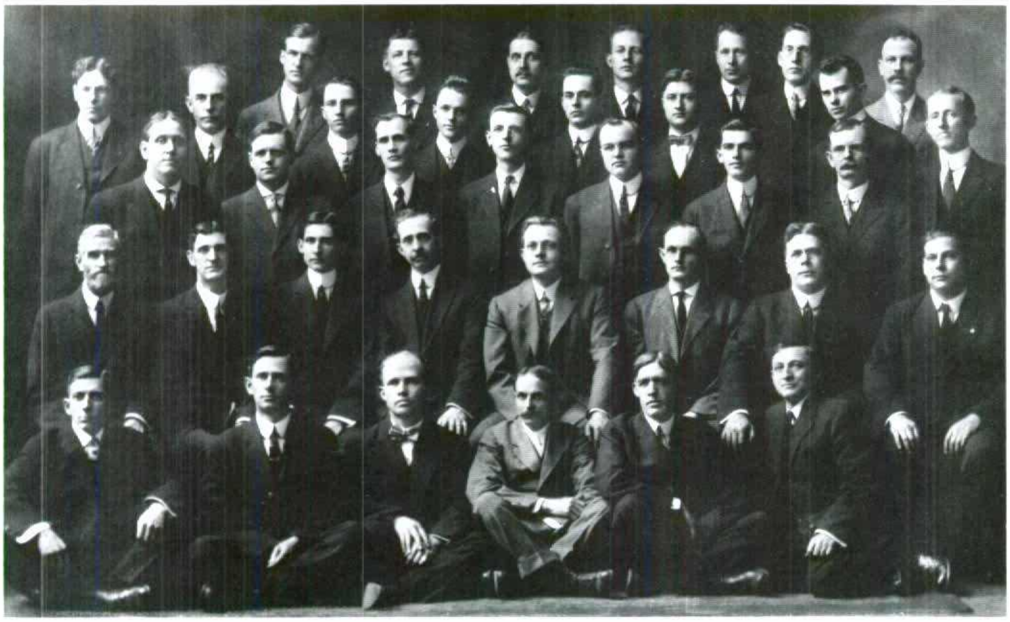
Gross margin, as a per cent of sales, increased during 1986 due to lower markdowns and well controlled inventories. We are experiencing substantially lower retail and wholesale markdowns on merchandise presented through our direct broadcast network.

About 20 per cent of our merchandise mix is selected by stores via direct broadcast. Using this system, which is one way video and two way audio, our buyers present merchandise to stores, which have the opportunity to make their selections and ask questions about the line. In this way, we can target our merchandise to consumers' interests and each market's needs more effectively.

In addition, we do not make significant wholesale commitments for merchandise until we determine what items and quantities the stores will buy. To our knowledge, no other retailer buys and distributes merchandise to its stores in this manner. Our plans are to expand the merchandise presented on this system, which is currently in use in all major markets of the United States.



Chairman of the board William R. Howell (center) with David F. Miller (left), president of JCPenney stores and catalog, and Rodney M. Birkins (right), senior vice president and director of catalog, at the Columbus, Ohio, catalog distribution center. This center is one of six regional distribution centers throughout the country, each approximately 45 acres in size, which receive, stock, and distribute merchandise ordered by customers through the catalog sales system. Our excellent reputation for customer service is built upon state of the art distribution and communications technology and the dedicated efforts of the approximately 1,800 associates staffing each of the centers.



Company founder James Cash Penney (second row, fourth from left) and Earl Corder Sams, who later became president (same row, fifth from left), at the first annual meeting of store managers and Company officials in Salt Lake City in 1913, the year of the Company's incorporation. On April 14, 1987, JCPenney will celebrate the 85th anniversary of its founding in Kemmerer, Wyoming, in 1902. We view with great pride our American origins, our American orientation, and our position as a leading retailer of American made goods. In 1986, approximately 75 per cent of the merchandise sold in JCPenney stores was made in America.

Financial Highlights (In millions except per share data)

For the Year	1986	1985	1984
Sales	**$14,740**	$13,747	$13,451
Sales of JCPenney stores and catalog	**$13,390**	$12,634	$12,372
Per cent increase from prior year	**6.0**	2.1	12.1
Retail income	**$ 497**	$ 386	$ 407
Per cent increase (decrease) from prior year	**28.8**	(5.1)	(7.7)
Per cent of sales	**3.4**	2.8	3.0
Income before extraordinary charge	**$ 530**	$ 397	$ 435
Per cent of stockholders' equity	**13.1**	10.4	12.2
Income per share before extraordinary charge	**$ 7.06**	$ 5.31	$ 5.81
Dividends per share	**$ 2.48**	$ 2.36	$ 2.36
Capital expenditures	**$ 350**	$ 426	$ 505

Since we live in a dynamic environment, our programs in support of our positioning strategy in the areas of buying, marketing, and distribution undergo continual review and refinement. Although our focus remains on the traditional JCPenney customer with a primary interest in quality, value, and service, more fashion-oriented groups have been targeted such as the working woman, the trendy teenager, and the fashion conscious man.

Our merchandise assortment still emphasizes private label, but it is supplemented by national brands with the balance determined category by category. The percentage of the total store devoted to apparel and soft home furnishings continues to rise upwards of 80 per cent in response to consumer demand.

During 1986, we improved the quality, presentation, and merchandise mix of our weekly advertising circulars. In 1987, plans are to expand this national program.

In order to take advantage of the dramatic decline in interest rates during 1986, the Company purchased $562 million of its long term debt with a weighted average interest rate of 12 per cent. These obligations were replaced by borrowings with a weighted average interest rate of 9.1 per cent and with longer maturities. In addition, the Company called for redemption on March 3, 1987, $274 million of sinking fund debentures with a weighted average interest rate of 11.5 per cent. The funds used to call these debentures were obtained from internally generated capital.

James Cash Penney, founder and then chairman of the Company, sets an example of quality customer service for associates to follow at our Provo, Utah, store in 1954. "The greatest advertisement that a store can have," Mr. Penney said, "is its service reputation."

Vice chairman Robert B. Gill (center) with Robert E. Northam (left), senior vice president and chief financial officer, and Donald A. McKay (right), vice president and treasurer. In order to take advantage of the dramatic decline in interest rates during 1986, the Company purchased and replaced $562 million of its long term debt and called for redemption $274 million of sinking fund debentures. These actions will reduce interest expense by approximately $40 million per year.

The replacement and redemption of high interest rate long term debt will reduce interest expense by approximately $40 million per year. The after tax cost of accomplishing this restructuring was $52 million, or 69 cents per share, which was recorded as an extraordinary charge.

Capital expenditures amounted to $350 million in 1986, and approximately the same amount has been allocated for capital expenditures in 1987.

Significant progress has been made in our strategy of achieving the most effective and efficient utilization of our store space. During the year, 13 department stores were modernized as part of an ongoing program to keep us in step with the ever-changing consumer.

During 1986, the Company opened a total of 41 JCPenney stores, and 120 stores—primarily smaller units—were closed. Gross selling space for all JCPenney stores remained approximately the same, with the total at year end amounting to 114.5 million square feet. In addition, 37 freestanding catalog sales centers were added as well as 146 independent catalog sales merchants.

We plan in 1987 to open 16 department stores in regional shopping centers and 30 geographic stores in smaller markets as well as 30 drug stores and 35 freestanding catalog sales centers. JCPenney store space, net of closings, is expected to be approximately the same as in 1986.

As part of our geographic store program with emphasis on enhanced productivity and profitability, the Company relocated 22 existing stores and opened three stores in new markets during 1986. These are smaller JCPenney stores located in towns with populations of 50,000 or less, which represent to the Company an important part of its future growth. Since this program began in 1982, 109 new stores have been opened, 295 older stores closed, and 544 stores modernized. At year end, we had 696 geographic stores, and while gross square footage was approximately the same as at year end 1982, productivity per gross square foot improved significantly during the five year period.

Our catalog business was consistently strong throughout the year, and profits more than doubled. During 1986, the Company spent fewer catalog media dollars than were spent in 1985, while we produced some $340 million more in net sales. Also, we processed almost 8 million more customer orders at only a small increase in distribution center costs. This combination of leverage and productivity resulted in catalog's outstanding performance in 1986.

Most of our catalog distribution capacity of 11.4 million square feet and all of our telephone communications network have been put in place during the last ten years. Our overall distribution and communications technology represents the state of the art, and we are second to none in this regard.

Executive vice president Thomas J. Lyons (seated) with Ted L. Spurlock, vice president and director of credit and consumer banking services, reviewing plans for the new Minneapolis credit service center, scheduled to open in early 1987. This center is one of 15 service facilities and three credit processing centers comprising JCPenney's credit operations, one of the world's largest. JCPenney Credit Services, a subsidiary, utilizes our expertise and state of the art technology to provide a wide range of services to corporate clients.

Thrift Drug has just completed its fifth consecutive year of record profitability. This has been accomplished while we have continued to increase the number of retail stores, become a major factor in the mail order pharmacy business, and entered the very profitable durable medical equipment business.

New growth opportunities for the Company are being pursued as a result of positive consumer response to new specialty retail formats that serve very narrow and profitable segments in the retail marketplace. Formats being developed include specialty businesses within JCPenney stores such as our fine jewelry, custom decorating, and leisure wear departments. In addition, the Company has established and staffed a department to explore potential retailing ventures involving specialty store operations with profitable growth potential.

The Company will launch the first consumer controlled, cable television delivered, home shopping and information service, called "Telaction," in the summer of 1987. This interactive service will enable consumers, at their convenience, to buy or browse for merchandise and services offered by some of America's and, perhaps, Europe's leading companies. We believe there is no comparable home shopping service operating anywhere in the world today.

Telaction requires consumers to have access to only a touch tone telephone and cable television. No additional equipment or hook-up is needed. The service will be introduced to more than 125,000 households in the Chicago area, and plans for expansion have been set depending on the rate of consumer acceptance.

The Company has also signed a letter of intent with Shop Television Network and LBS Communications to pursue discussions concerning possible participation in a more conventional video home shopping venture.

During the year, we elected former Governor of Oklahoma George Nigh a director of the Company. Governor Nigh, who was the first governor in Oklahoma history to serve more than one term, is the immediate past co-chairman of the 30 state Interstate Oil Compact Commission and immediate past chairman of the Southern Growth Policies Board.

As we move into 1987, we remain confident of our merchandising and marketing strategy and our ability to implement it. A foundation has been put in place that enables us to respond promptly and successfully to a variety of business climates. Although the tax reform act is expected to increase consumer disposable income, the benefits to retailers are likely to be realized later in the year. The economic problems that affected our business throughout the past year in the Central and Southwest regions of the country are likely to continue.

In this, our 85th year of serving the American consumer, we look to the past to put the present in perspective. While much has changed over the years, the foundations of our business remain our JCPenney stores and catalog, and we see them as our primary source of continuing growth and profitability. What also hasn't changed is our commitment to providing quality, value, and service to our customers and creating opportunities for professional development for our associates.

We take this opportunity to express our sincere appreciation to all of our dedicated associates whose efforts have contributed to a challenging and rewarding year. We also thank our customers, suppliers, and stockholders for their continued support and loyalty.

Warmest regards,

W R Howell

William R. Howell
Chairman of the Board

March 31, 1987

JCPenney executive vice president Ralph B. Henderson (right) with Stuart MacIntire, president of the Company's new Telaction subsidiary, at its Chicago headquarters. Scheduled to be launched in the summer of 1987 in suburban Chicago, "Telaction" is the first consumer controlled, cable television delivered, home shopping and information service. This interactive service, which requires only a touch tone telephone and cable television, enables consumers, at their convenience, to buy or browse for merchandise and services offered by some of America's and, perhaps, Europe's leading companies. No comparable home shopping service is operating anywhere in the world today.

Statement of Income (In millions except per share data)

J.C. Penney Company, Inc. and Consolidated Subsidiaries

For the Year	1986	1985	1984
Sales	**$14,740**	$13,747	$13,451
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	**9,786**	9,240	9,030
Selling, general, and administrative expenses	**3,679**	3,454	3,374
Interest expense, net	**350**	370	350
Total costs and expenses	**13,815**	13,064	12,754
Retail income before income taxes	**925**	683	697
Income taxes	**428**	297	290
Retail income	**497**	386	407
Income of unconsolidated subsidiaries	**33**	11	28
Income before extraordinary charge	**530**	397	435
Extraordinary charge on debt restructure, net of income taxes of $49	**52**	—	—
Net income	**$ 478**	$ 397	$ 435
Per share			
Income before extraordinary charge	**$ 7.06**	$ 5.31	$ 5.81
Extraordinary charge, net of income taxes	**.69**	—	—
Net income	**$ 6.37**	$ 5.31	$ 5.81

Statement of Reinvested Earnings (In millions)

	1986	1985	1984
Reinvested earnings at beginning of year	**$3,122**	$2,890	$2,640
Net income	**478**	397	435
Unrealized change in market value of equity securities	**2**	9	(7)
Foreign currency translation adjustment	**5**	2	(3)
Retirement of common stock	**(42)**	—	—
Dividends declared	**(186)**	(176)	(175)
Reinvested earnings at end of year	**$3,379**	$3,122	$2,890

See Summary of Accounting Policies on page 11 and 1986 Financial Review on pages 12 through 26.

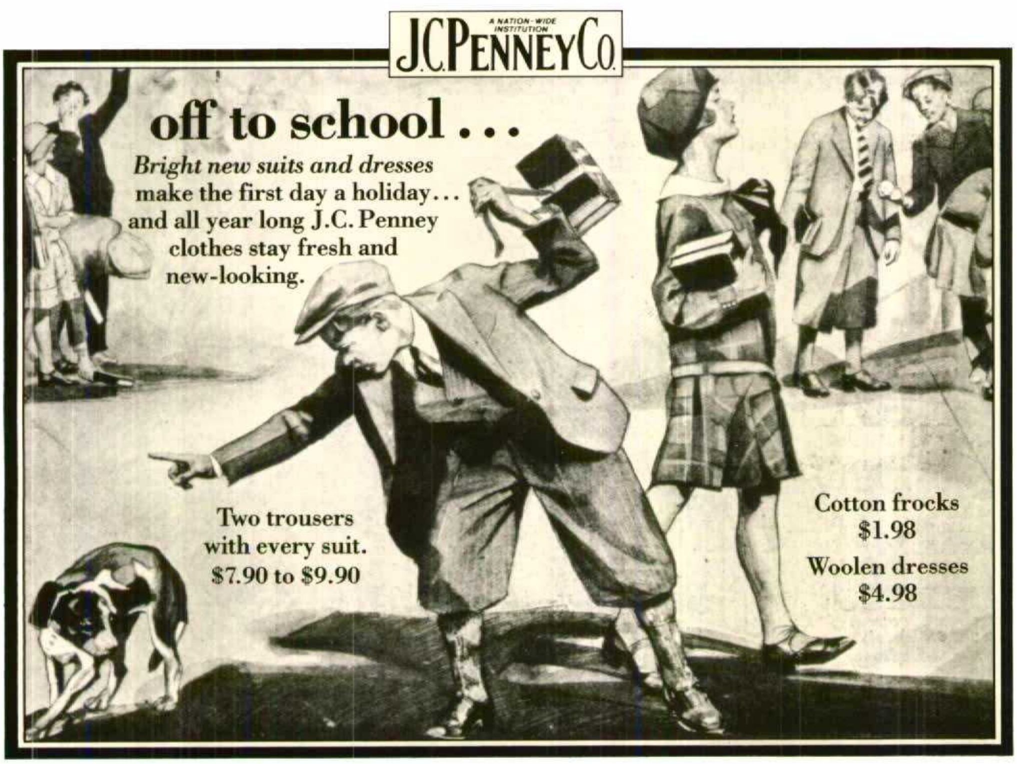
Balance Sheet (In millions)

J.C. Penney Company, Inc. and Consolidated Subsidiaries

Assets	1986	1985	1984
Current assets			
Cash and short term investments of $534, $136, and $161	**$ 639**	$ 158	$ 187
Receivables, net	**4,614**	4,504	4,019
Merchandise inventories	**2,168**	2,298	2,383
Prepaid expenses	**111**	117	134
Total current assets	**7,532**	7,077	6,723
Investment in and advances to unconsolidated subsidiaries	**406**	372	299
Properties, net of accumulated depreciation and amortization of $1,275, $1,151, and $1,015	**2,919**	2,812	2,608
Other assets	**331**	261	163
	$11,188	$10,522	$9,793

Liabilities and Stockholders' Equity	1986	1985	1984
Current liabilities			
Accounts payable and accrued expenses	**$ 1,489**	$ 1,282	$1,145
Short term debt	**597**	740	802
Current maturities of long term debt	**484**	—	125
Deferred taxes, principally installment sales	**142**	701	628
Total current liabilities	**2,712**	2,723	2,700
Long term debt	**2,655**	3,099	2,847
Deferred taxes	**1,481**	649	434
Stockholders' equity			
Common stock, par value 50¢: Authorized, 500 million shares—issued, 75, 75, and 74 million shares	**961**	929	922
Reinvested earnings	**3,379**	3,122	2,890
Total stockholders' equity	**4,340**	4,051	3,812
	$11,188	$10,522	$9,793

See Summary of Accounting Policies on page 11 and 1986 Financial Review on pages 12 through 26.



JCPenney has outfitted children since 1902, when kids' socks could be purchased for as little as 5 cents a pair. A year later, when the average daily wage in Kemmerer, Wyoming, was about $1.50, the Company advertised Buster Brown hosiery in "fine rib, coarse rib, any old rib" at 18 cents a pair.

Over the years, styles and prices have changed, but not the JCPenney commitment to quality and value. The ads shown on these pages, from the late 1920's, remind us of the many years when boys and girls went off to school looking like little ladies and gentlemen.

Denim and Reeboks provide the right degree of formality for school kids circa 1987.

Statement of Changes in Cash and Short Term Investments (In millions)

J.C. Penney Company, Inc. and Consolidated Subsidiaries

For the Year	1986	1985	1984
Operating activities			
Income before unconsolidated subsidiaries and extraordinary charge	**$ 497**	$ 386	$ 407
Deferred taxes	**273**	288	178
Depreciation and amortization	**229**	212	198
Change in cash from:			
Customer receivables	**(58)**	(457)	(291)
Inventories, net of trade payables	**261**	111	(423)
Other assets and liabilities, net	**(31)**	75	(39)
	1,171	615	30
Investing activities			
Capital expenditures	**(348)**	(422)	(495)
Investments in and advances to unconsolidated subsidiaries	**20**	(33)	(19)
Other investments	**(11)**	(97)	(33)
	(339)	(552)	(547)
Financing activities			
Increase (decrease) in short term debt	**(143)**	(62)	193
Issuance of long term debt	**643**	396	586
Payments of long term debt	**(618)**	(257)	(145)
Extraordinary charge on replacement of debt	**(39)**	—	—
Common stock (retired) issued, net	**(11)**	7	3
Dividends paid	**(183)**	(176)	(171)
	(351)	(92)	466
Increase (decrease) in cash and short term investments	**$ 481**	$ (29)	$ (51)

The Company has adopted a cash flow format for this statement to present on a cash basis the Company's operating, investing, and financing activities. Amounts in this statement may differ from those shown in other sections of this Annual Report because these amounts are stated on a cash basis.

See Summary of Accounting Policies on page 11 and 1986 Financial Review on pages 12 through 26.

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and changes in financial position. Certain amounts included in the financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company's system of internal accounting controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable cost, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and, where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The financial statements have been examined by independent certified public accountants whose report appears on page 11.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee is responsible for recommending to the Board the engagement of the independent certified public accountants for the purpose of conducting the annual examination of the Company's financial statements. Company personnel, including internal auditors, and the independent certified public accountants meet periodically with the Audit Committee to review financial statements and discuss auditing and financial reporting matters.

Nora Sammons Jones was Mr. Penney's first associate. She recalled that on opening day, April 14, 1902, "there was a steady stream of people pouring into the store all day long. When there were no customers to wait on, we were kept busy marking and arranging the stock."

Working women dress more colorfully and a bit less formally today, as our school teacher on the opposite page demonstrates. She wears a smart, raspberry linen-look coordinated ensemble available through catalog. Her students are outfitted in a variety of casual clothes that bear such labels as Fox and Hunt Club.

Management's Discussion and Analysis of Results of Operations and Financial Position

Results of operations (Per cent of sales)	**1986**	1985	1984
Sales, per cent increase	**7.2**	2.2	11.4
Gross margin	**33.6**	32.8	32.9
Selling, general, and administrative expenses	**25.0**	25.1	25.1
Interest expense, net	**2.3**	2.7	2.6
Retail income	**3.4**	2.8	3.0

Retail income increased 28.8 per cent to a record $497 million in 1986, compared with $386 million in 1985 and $407 million in 1984. The increase was due to our emphasis on inventory management, expense control, selective promotional activity, and the particularly strong performance of catalog. The decline in 1985 was due principally to the impact of the LIFO method of inventory valuation. Heavy markdowns were the primary reason for the decline in 1984.

Net income before an extraordinary charge was $530 million in 1986, the highest in the Company's history, up from $397 million in 1985 and $435 million in 1984. The increase of $133 million, or 33.5 per cent, resulted from our retail performance as well as the increase in the net income of the unconsolidated subsidiaries to $33 million. See pages 14 and 15 for additional information.

Gross margin as a per cent of sales increased in 1986. Markdowns were lower, and inventories continued to be well controlled. The impact of the LIFO method of inventory valuation resulted in pre-tax charges of $10 million and $16 million in 1986 and 1985, respectively, and a credit of $57 million in 1984. During the last three years, general merchandise inflation has been very modest compared with the inflation levels of previous years.

Selling, general, and administrative expenses as a per cent of sales were well controlled in each of the last three years. Selling, general, and administrative expenses rose 6.5 per cent in 1986, compared with 2.4 per cent in 1985 and 13.5 per cent in 1984. In 1986, salaries and personnel related costs, as well as advertising expenses, continued to decline as a per cent of sales. 1985 also benefited from tight controls over personnel related costs and advertising expense. In 1984, the increase was attributed to increased advertising.

The effective income tax rate for 1986 was 46.3 per cent as compared with 43.5 per cent and 41.7 per cent for 1985 and 1984, respectively. The increase in 1986 reflects the repeal of the investment tax credit retroactive to January 1, 1986. Accordingly, net income per share was reduced by approximately 25 cents compared with each of the previous two years.

Interest expense declined to $350 million in 1986, due to lower interest rates and the benefits realized from the debt restructure program. Interest expense was $370 million and $350 million in 1985 and 1984, respectively. Higher levels of borrowings to finance operating activities accounted for the increases in 1985 and 1984.

In order to take advantage of the dramatic decline in interest rates during 1986, the Company purchased $562 million of its long term debt with a weighted average interest rate of 12 per cent. These obligations were replaced by borrowings with a weighted average interest rate of 9.1 per cent with longer maturities. In addition, the Company called for redemption on March 3,1987, $274 million of sinking fund debentures with a weighted average interest rate of 11.5 per cent. The funds used to call these debentures were obtained from internally generated capital.

The replacement and redemption of high interest rate long term debt will reduce interest by approximately $40 million per year. The after tax cost of accomplishing this restructuring was $52 million, or 69 cents per share, recorded as an extraordinary charge in the accompanying statement of income. After the extraordinary charge, net income per share was $6.37 in 1986, compared with $5.31 and $5.81 in 1985 and 1984, respectively.

Financial Position. Cash generated from operations increased in 1986 by more than $550 million, or 90 per cent, to $1,171 million from $615 million in 1985 and $30 million in 1984. This resulted from the dramatic improvements in retail income discussed above as well as the emphasis on management of inventories and receivables.

Customer receivables, at $4.3 billion, in 1986 were at about the same level as the prior year compared with increases of 12 per cent and 8 per cent in 1985 and 1984, respectively. This resulted principally from planned changes in repayment terms as well as the leveling off in the use of credit by customers.

Merchandise inventories decreased 6 per cent in 1986, compared with a decrease of 4 per cent in 1985 and an increase of 20 per cent in 1984. The Company has closely monitored inventory levels in 1986 and 1985 compared with the condition in 1984.

The Company has generated sufficient amounts of cash from operations in 1986 to support its investment activities as well as to reduce debt and pay dividends to stockholders. Capital expenditures were reduced by about $75 million in both 1986 and 1985 compared with significant increases in 1984 and 1983. The Company is closely reviewing and monitoring all capital projects.

The Tax Reform Act of 1986 will have a significant impact on the Company. The major benefit will be lower federal income tax rates of 39 per cent in 1987 and 34 per cent thereafter. This will have a positive

J.C.PENNEY CO. A NATION-WIDE INSTITUTION

Miss 7 to 14 is right in style with the high waistline and flared skirt on her new sleeveless cotton print... trimmed with crisp organdie. $1.98

The school girl who wears this suit of matching coat and dress will be awarded a perfect grade for smartness. The dress is made of a sheer material and the coat of matching print in a heavier material. Sizes 7 to 14 $1.98

effect on the Company's net income in future years. In addition, the significant reduction in tax rates would impact the deferred tax credits reflected on the balance sheet as discussed on page 26. The negative effect of the Act will be the repeal of the installment method for revolving credit sales, and the deferred tax will become payable over a four year period beginning in 1987. The elimination of the installment method will not impact financial statement net income.

The Company anticipates that the major portion of its cash requirements during the next few years to finance customer receivables, inventories, and expansion and modernization and to repay amounts borrowed will continue to be generated from operations. The Company will continue to review all expenditures to maximize financial returns and maintain financial flexibility.

Additional Information. For additional discussion and analysis of 1986, see the 1986 Financial Review on pages 12 through 26.

Summary of Accounting Policies

The dominant portion of JCPenney's business consists of selling merchandise and services to consumers through stores, including catalog operations.

Basis of Consolidation. The consolidated financial statements present the results of J.C. Penney Company, Inc. and its subsidiaries, except for the insurance operations, the bank, and real estate development operations, which are accounted for on the equity method. The combined income of these unconsolidated operations is included as a single item in the statement of income. Intercompany items and transactions have been eliminated in consolidation.

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1986 ended January 31, 1987, 1985 ended January 25, 1986, and 1984 ended January 26, 1985. They comprised 53 weeks, 52 weeks, and 52 weeks, respectively. The accounts of J.C. Penney Life Insurance Company, J.C. Penney Casualty Insurance Company, and the JCPenney National Bank are on a calendar year basis.

Sales. Sales include merchandise and services, net of returns, and exclude sales and value added taxes.

Finance Charge Revenue. Finance charge revenue arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, and 10 per cent for selling fixtures and equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their useful lives, whichever is shorter.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

JCPenney Financial Services' policy acquisition costs, which are primarily marketing and underwriting expenses related to generating new insurance policies, are deferred and, subject to recoverability, are amortized over the expected premium paying period of the related policies. The maximum period was 15 years for life and health policies and five years for automobile and homeowners policies.

Today's school girl gets perfect grades for her smart up-to-date look — layer upon layer, from her jazzy, casual, oversized French terry top, right down to her socks. Her longer length knit skirt and high-top sneakers complete today's young junior look.

Accountants' Report

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.

We have examined the balance sheet of J.C. Penney Company, Inc. and Consolidated Subsidiaries as of January 31, 1987, January 25, 1986, and January 26, 1985, and the related statements of income, reinvested earnings, and changes in cash and short term investments for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J.C. Penney Company, Inc. and Consolidated Subsidiaries at January 31, 1987, January 25, 1986, and January 26, 1985, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

345 Park Avenue, New York, N.Y.
February 18, 1987

Peat, Marwick, Mitchell & Co.

1986 Financial Review

Sales in 1986 were $14,740 million, an increase of 7.2 per cent over $13,747 million in 1985. Fiscal 1986 comprised 53 weeks compared with 52 weeks in 1985. On a comparable 52-week basis, sales in 1986 were 5.8 per cent higher than in 1985.

		Per cent increase 1986 vs. 1985			Per cent increase 1985 vs. 1984		
Sales (In millions)	**1986**	All units	Comparative units	1985	All units	Comparative units	1984
JCPenney stores	**$12,888**	6.0	6.1	$12,165	2.1	1.5	$11,913
Catalog	**2,332**	16.6	17.9	2,000	3.7	5.5	1,928
Intracompany elimination	**(1,830)**	n/a	n/a	(1,531)	n/a	n/a	(1,469)
Total JCPenney stores and catalog	**13,390**	6.0	6.1	12,634	2.1	1.5	12,372
Other retail operations	**1,350**	21.2	21.2	1,113	3.2	3.2	1,079
Total	**$14,740**	7.2	7.4	$13,747	2.2	1.7	$13,451

The intracompany elimination represents the duplication of those catalog sales made through JCPenney stores and also included in Catalog. Comparative units are those in operation throughout both the current and prior year. For further analyses of sales, see the discussion below and the Five Year Operations Summary on page 29.

JCPenney Stores

		Per cent increase (decrease) 1986 vs. 1985			Per cent increase (decrease) 1985 vs. 1984		
JCPenney stores' sales (In millions)	**1986**	All units	Comparative units	1985	All units	Comparative units	1984
Metropolitan markets							
Department stores	**$10,150**	6.6	5.8	$ 9,524	3.5	2.5	$ 9,200
Soft line stores	**851**	(.8)	6.0	858	(3.9)	.8	893
Geographic markets	**1,887**	5.9	7.9	1,783	(2.0)	(3.4)	1,820
Total	**$12,888**	6.0	6.1	$12,165	2.1	1.5	$11,913

Metropolitan markets are served by two types of stores: department stores and soft line stores. Department stores are situated primarily in premier regional comparison shopping centers and offer family apparel, home furnishings, and leisure lines. Soft line stores serve the more densely populated, mature suburbs and urban sectors of these markets.

The Company had 574 department stores in operation at year end and an aggregate of 90 million gross square feet of space. Sales per gross square foot were approximately $114 for stores in operation throughout 1986. The Company continues to open new stores as opportunities arise and will close stores that do not meet performance objectives. During 1986, 14 department stores were opened and six were closed.

At year end, the Company had 133 soft line stores in operation and an aggregate of 7 million gross square feet. Sales per gross square foot were approximately $120 for stores in operation throughout 1986. During 1986, two soft line stores were opened and 32 were closed.

Metropolitan market stores' profit increased substantially in 1986 as a result of improved gross margin and the continuation of expense controls. Profits increased in 1985 primarily due to tight expense controls, and in 1984 profits declined as a result of increased promotional activity.

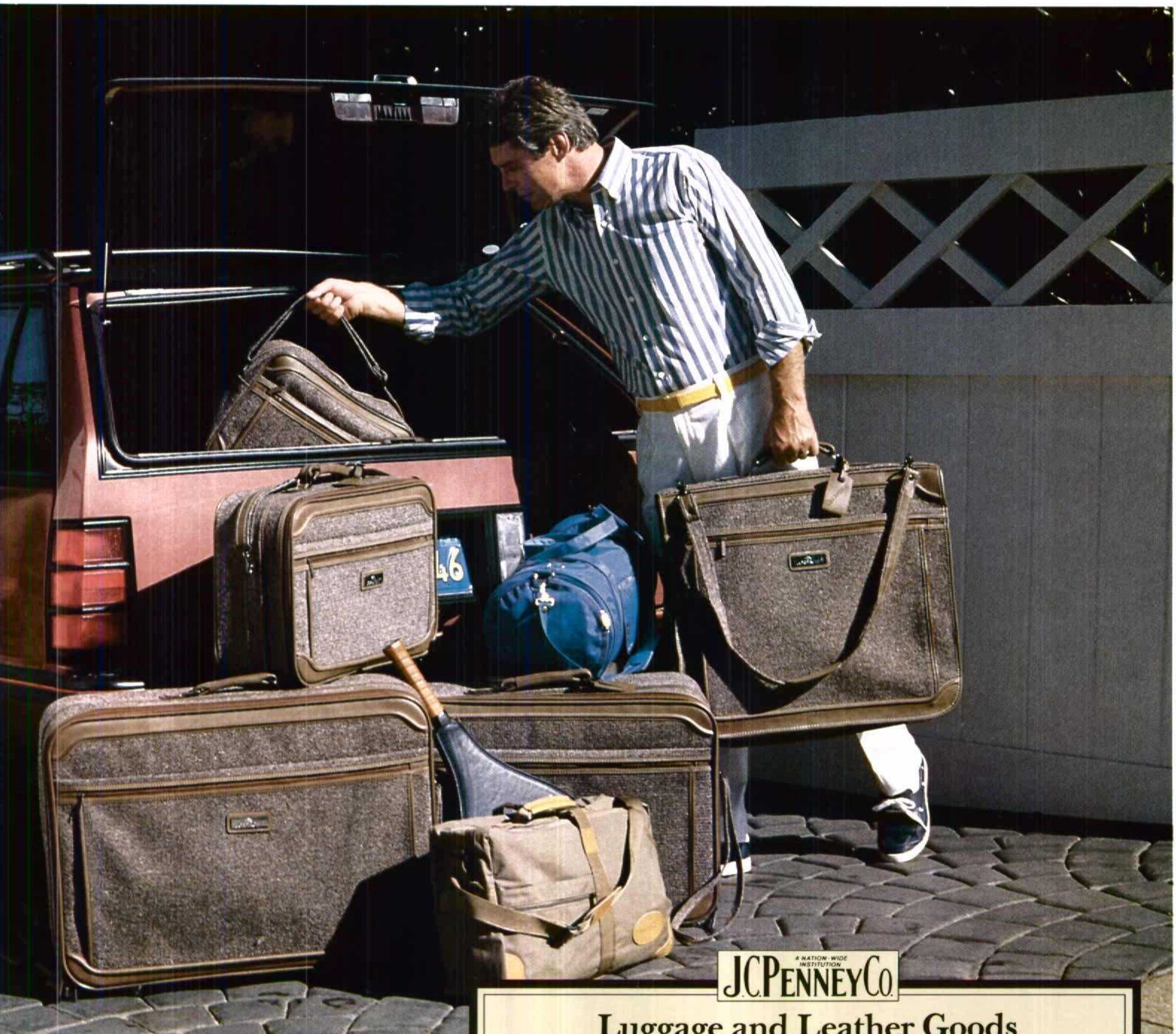
Geographic market stores are located in nonmetropolitan areas and in satellite towns within metropolitan areas. These stores emphasize family apparel and soft home furnishings.

At year end, the Company had 696 geographic market stores in operation and an aggregate of 18 million gross square feet. Sales per gross square foot were approximately $101 for geographic market stores in operation throughout 1986. During 1986, 25 geographic market stores were opened and 82 were closed. The Company continues to expand into new markets and close unproductive stores.

Geographic market stores' profit increased substantially in 1986 due to improved gross margin. Profits increased in 1985 as a result of tight expense controls and declined in 1984 due to increased promotional activity.

JCPenney offered trunks for as little as $1.98 in 1903. In 1927, according to an ad from that year shown on the facing page, a lady's hat box and suitcase could be purchased for $2.98 per set.

Hat boxes are not much in evidence these days nor is leather luggage. Soft sided cases in a variety of sizes and shapes serve the modern traveler, and JCPenney offers a wide selection, including the handsome, tweed-look Jordache five-piece luggage set featured here.



Catalog

Catalog operations expand the Company's retailing capabilities by offering a wide range of merchandise to complement and supplement the stores' assortment. The six catalog distribution centers carry family fashions, home furnishings, automotive, and leisure merchandise. This year virtually all catalog orders were handled by 14 catalog telephone centers. These centers improve customer service by using trained personnel to handle catalog sales.

Most catalog orders are delivered within 48 hours. They are shipped to catalog departments, customers' homes, and to catalog sales merchants which opened in 1986. Sales merchants are independent businesses located in communities not otherwise serviced by JCPenney stores. Catalog departments are located in all JCPenney stores, selected Drug stores, and in freestanding facilities.

The Company publishes two general catalogs: Fall & Winter and Spring & Summer. In addition, a Christmas Catalog and other seasonal, promotional, and specialty media are produced.

Catalog sales (In millions)	**1986**	Per cent increase 1986 vs. 1985		1985	Per cent increase 1985 vs. 1984		1984
		All units	Comparative units		All units	Comparative units	
JCPenney stores							
Metropolitan markets							
Department stores	**$1,079**	22.3	21.8	$ 882	6.2	5.3	$ 830
Soft line stores	**213**	15.9	18.6	184	3.5	4.8	177
Geographic markets	**538**	15.7	21.7	465	.7	1.6	462
	1,830			1,531			1,469
Drug stores	**75**	23.4	19.7	61	4.6	3.6	58
Other, principally outlet stores	**427**	4.5	n/a	408	2.1	n/a	401
Total	**$2,332**	16.6	17.9	$2,000	3.7	5.5	$1,928

Catalog's profit more than doubled in 1986 due to a sharp increase in sales. Also, advertising and distribution center expenses were lower as a per cent of sales. Catalog's profit declined in 1985 and 1984 due to start-up costs associated with the on-line telephone centers.

Other Retail Operations

Sales of other retail operations (In millions)	**1986**	Per cent increase 1986 vs. 1985		1985	Per cent increase (decrease) 1985 vs. 1984		1984
		All units	Comparative units		All units	Comparative units	
Drug stores	**$ 727**	13.4	12.5	$ 641	8.5	7.3	$ 591
Belgian operations	**623**	31.8	33.5	472	(3.2)	(2.2)	488
Total	**$1,350**	21.2	21.2	$1,113	3.2	3.2	$1,079

Drug stores, operating under the name Thrift Drug or The Treasury Drug Center, with an aggregate of 4 million square feet of gross selling space, offer typical drug store merchandise, including prescription drugs and health and beauty aid products. Thrift Drug's mail order pharmacy operation services the prescription needs of customers from major organizations by filling prescriptions through the mail. During 1986, 21 drug stores were opened and five were closed. At year end, the Company operated 390 drug stores.

Drug stores' profit increased in 1986 and 1985 as a result of higher sales and improved gross margin. Higher sales and improved expense control accounted for the increase in 1984 profits.

Belgian stores, operating under the name Sarma, sell general merchandise, food, and apparel. At year end, there were 52 Sarma stores with an aggregate of 3 million square feet of gross selling space. Belgian operations include sales to franchised stores of $376 million in 1986, $283 million in 1985, and $294 million in 1984. At year end, 187 franchised stores were in operation. Belgian operations sales in local currency decreased .7 per cent in 1986 and 3.4 per cent in 1985 and increased 6.3 per cent in 1984.

After several years of a restructuring and repositioning effort, the initial phase was completed in fiscal 1985. Our continuing operations in Belgium showed a small profit in 1986 compared with small losses in 1985 and 1984.

Unconsolidated Subsidiaries

Investment in and advances to unconsolidated subsidiaries at equity (In millions)	**1986**	1985	1984
JCPenney Financial Services	**$363**	$350	$338
JCPenney National Bank	**74**	45	3
JCP Realty, Inc.	**(31)**	(23)	(42)
Total	**$406**	$372	$299

JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries, which market life and health insurance and automobile and homeowners casualty insurance. At the end of 1986, there were 169 insurance centers in operation, located primarily in JCPenney stores.

The Company's capital contributions and advances to JCPenney Financial Services were $15 million in 1986, $14 million in 1985, and $20 million in 1984. In 1986, the Company received a dividend of $18 million from the JCPenney Life Insurance Company.

Travel coats must be well cut and expertly finished, but seldom are they then so moderately priced! A new wrinkle-proof, dust-proof fabric fashions this smart coat. Coats of this type, outstanding values, at ***$24.75.***

JCPenney Life Insurance Company, in 1986, reported higher net income primarily from improved investment performance. JCPenney Casualty Insurance Company's net loss was substantially reduced in 1986 as a result of more favorable underwriting experience.

Summary of insurance operations (In millions)	Year ended December 31 **1986**	1985	1984
Premiums earned	**$301**	$308	$248
Investment income	**62**	52	42
Total revenues	**363**	360	290
Benefits, claims, and expenses	**351**	395	286
Income (loss) before income taxes	**12**	(35)	4
Income taxes (benefits)*	**(2)**	(24)	(18)
Net income (loss)	**$ 14**	$ (11)	$ 22
JCPenney Life			
Operations	**$ 27**	$ 23	$ 22
Tax benefit*	**—**	—	14
JCPenney Casualty	**(13)**	(34)	(14)
Net income (loss)	**$ 14**	$ (11)	$ 22

Deferred taxes of $14 million were eliminated and recognized in income in 1984 as a result of the Tax Reform Act of 1984.

Insurance companies' balance sheet (In millions)	December 31 **1986**	1985	1984
Assets			
Investments			
Fixed income, at amortized cost (market: $374, $308, and $275)	**$364**	$294	$281
Short term, at cost which equals market	**39**	65	65
Equity, at market (cost: $112, $108, and $83)	**120**	114	77
Other	**12**	10	10
Total investments	**535**	483	433
Deferred policy acquisition costs	**185**	195	179
Other assets	**123**	168	123
	$843	$846	$735
Liabilities and equity			
Policy and claims reserves	**$376**	$396	$295
Income taxes and other liabilities	**104**	100	102
Due to JCPenney	**29**	14	—
Equity of JCPenney	**334**	336	338
	$843	$846	$735

JCPenney National Bank recently began to offer Visa and MasterCard credit cards. By the end of the year, about 170 thousand credit cards were issued and $131 million of receivables were outstanding. The Company's capital contributions and advances to the bank were $28 million in 1986 and $42 million in 1985.

JCP Realty, Inc. is engaged in the development and operation of real estate through participation in joint ventures.

At year end, JCP Realty had interests in more than 70 projects, primarily regional shopping centers. More than 50 of these were in operation, and the balance were in various stages of development.

JCP Realty recorded profits of $18 million, $22 million, and $6 million in each of the last three years. Included in 1986 and 1985 results were gains, net of taxes, of $14 million and $19 million, respectively, from sales of its interests in shopping center ventures. JCP Realty has advanced to JCPenney an amount in excess of its equity as follows:

Net investment in JCP Realty, Inc. (In millions)	**1986**	1985	1984
Amount advanced to JCPenney	**$(114)**	$(88)	$(85)
Equity of JCPenney	**83**	65	43
Net investment of JCPenney	**$ (31)**	$(23)	$(42)

In the roaring twenties, no sophisticated flapper would be without a travel coat, such as the one seen on the opposite page. The thoroughly modern woman of 1987 wouldn't be without her bank access card.

An old ad told women that "You can save enough on a smart dress to buy a hat or shoes at the J.C. Penney store nearest you." That's still true. Today you can purchase a smart looking, color-coordinated outfit, such as the one above, from our moderately priced Wyndham collection, one of many coordinated lines of separates offered in JCPenney stores.

A picnic on the beach brings out colorful and different looks for the entire family. Mom wears the latest big shirt look of soft 100 per cent cotton and coordinated, longer, very feminine shorts; Dad sports one of the many fabulous color choices from our Fox shirt collection.

For teenage daughter, a big pant overall makes an ideal swimsuit cover-up, and junior wears one of the many "message" T-shirts in his and JCPenney's collection.

The bathing togs are from the 1930's.


A NATION-WIDE INSTITUTION
J.C.PENNEY CO.
BATHING TOGS
for the whole family
The rib knit, all wool suit on the far left is one of many attractive $2.49 suit for misses.
The figure to her right is wearing a fancy all wool suit with the popular sunback. $4.98
The seated figure on the left is wearing the speed model that boys like so well. All wool, rib knit. $2.49
A one-piece all wool bathing suit for men is illustrated on the right below. It is a rib knit model. $2.98

Assets

Receivables (In millions)	**1986**	1985	1984
Customer receivables	**$4,291**	$4,233	$3,776
Less allowance for doubtful accounts	**79**	72	64
Customer receivables, net	**4,212**	4,161	3,712
Other receivables	**402**	343	307
Receivables, net	**$4,614**	$4,504	$4,019

Merchandise inventories (In millions)	**1986**	1985	1984
Merchandise inventories, at lower of cost (FIFO) or market	**$2,396**	$2,516	$2,585
LIFO reserve	**(228)**	(218)	(202)
Merchandise inventories, at lower of cost (LIFO) or market	**$2,168**	$2,298	$2,383

Properties (In millions)	**1986**	1985	1984
Land	**$ 140**	$ 136	$ 131
Buildings			
Owned	**1,458**	1,359	1,232
Capital leases	**247**	247	251
Fixtures and equipment	**1,904**	1,814	1,640
Leasehold improvements	**445**	407	369
	4,194	3,963	3,623
Less accumulated depreciation and amortization	**1,275**	1,151	1,015
Properties, net	**$2,919**	$2,812	$2,608

Capital expenditures (In millions)	**1986**	1985	1984
Land	**$ 2**	$ 6	$ 6
Buildings	**94**	121	73
Fixtures and equipment	**207**	245	333
Leasehold improvements	**47**	54	93
Total capital expenditures	**$350**	$426	$505
JCPenney stores			
Modernizations	**$172**	$219	$356
New stores	**114**	113	81
	286	332	437
Other	**64**	94	68
Total	**$350**	$426	$505

Liabilities and Stockholders' Equity

Accounts payable and accrued expenses (In millions)	**1986**	1985	1984
Trade payables	**$ 555**	$ 424	$ 398
Dividend payable	**46**	44	44
Taxes, including income taxes	**216**	195	180
Accrued salaries, vacations, profit-sharing, and bonuses	**394**	361	331
Other	**278**	258	192
Total	**$1,489**	$1,282	$1,145

Short term debt (In millions)	**1986**	1985	1984
Commercial paper	**$ 407**	$ 480	$ 557
Master notes and other	**190**	260	245
Short term debt	**$ 597**	$ 740	$ 802
Average borrowings	**$ 955**	$ 875	$1,076
Peak outstanding	**$1,257**	$1,210	$1,441
Average interest rates	**6.7%**	8.0%	10.1%

J.C.PENNEY CO. A NATION-WIDE INSTITUTION

NEW PORCH FROCKS

THIS Spring's Porch Frocks, as shown in the J. C. Penney stores, might better be called Party Frocks, for they have the Style and the Chic to grace high-tea anywhere.

In washable fast-color cottons and rough silks, they include an all-silk pongee, and are amazingly priced at $1.79.

Long term debt (In millions)	**1986**	1985	1984
Original issue discount			
Zero coupon notes and 6% debentures, due 1989 to 1994 and 2006, $900 at maturity, yield 13.5% to 15.1%, effective rates 12.5% to 13.5%	**$ 436**	$ 390	$ 351
Debentures and notes			
5.375% to 8.875%, due 1987 to 1998	**429**	339	348
9% to 9.75%, due 1995 to 2016	**656**	313	221
10.2% to 11.875%, due 1987 to 1994	**471**	521	425
12.125% to 13.75%, due 1986 to 1999	**295**	450	550
11% to 12.375%, due 2010 to 2015	**—**	650	500
4.5% and 6% convertible, due 1987 and 1989	**3**	45	45
Other	**141**	157	161
	2,431	2,865	2,601
Present value of commitments under capital leases	**224**	234	246
Long term debt and commitments under capital leases	**$2,655**	$3,099	$2,847
Average interest rates	**11.1%**	11.3%	11.3%

Changes in long term debt (In millions)	**1986**	1985	1984
Increases			
9% and 9.375% sinking fund debentures, due 2016	**$ 350**	$ —	$ —
8.375% and 10.875% notes, due 1990 and 1996	**247**	—	—
6.75% Euro-yen notes, due 1992, effective rate 10.8%	**—**	102	—
9.75% notes, due 1995	**—**	100	—
11% and 12.375% sinking fund debentures, due 2014 and 2015	**—**	150	100
11.75% to 13.75% notes, due 1987 to 1999	**—**	—	400
Amortization of original issue discount	**46**	39	35
Other, net	**(66)**	(39)	(3)
	577	352	532
Decreases			
Retirements from debt restructure program			
Open market purchases, weighted average rate of 12% with maturities of 1990 to 2015	**562**	—	—
Sinking fund debentures called for redemption, weighted average rate of 11.5% with maturities of 2010 to 2015	**274***	—	—
	836	—	—
Other transfers to current maturities of long term debt	**185***	—	125
12.375% notes, due 1986, called in 1985	**—**	100	—
	1,021	100	125
Net increase (decrease) in long term debt	**$ (444)**	$252	$407

**Current maturities of long term debt of $484 million, as shown on the balance sheet, include the debentures called for redemption plus the premium of $25 million, and the other debt maturing in 1987.*

The Company purchased and retired $562 million of its high interest rate debt during the year in order to take advantage of the dramatic decline in interest rates. In addition, the Company called $274 million sinking fund debentures for redemption on March 3, 1987. The after tax premium for the debt restructure program of $52 million is included as an extraordinary charge in the statement of income.

Maturities of long term debt (In millions)	Long term debt	Capital leases
1987	$ 33	$ 24
1988	44	24
1989	293	24
1990	358	24
1991	250	24
1992 to 1996	1,168	111
Thereafter	749	119
Total	$2,895	350
Less future interest and executory expenses		126
Present value		$224

Confirmed lines of credit available to JCPenney amounted to $745 million. None was in use at January 31, 1987.

For today's woman, who is more likely to be seen in a business setting than on her front porch, JCPenney offers this four-piece coordinated outfit that will look appropriate on all but the most formal occasions.

Stockholders' equity rose to $4,340 million at year end 1986 from $4,051 million at year end 1985 and $3,812 million at year end 1984.

During the year, the Company purchased approximately 624 thousand shares of its common stock from a Company benefit plan at a cost of about $50 million, $42 million of which was charged to reinvested earnings and the remainder to common stock. All shares were retired and returned to the status of authorized but unissued shares of common stock.

In 1984, the Company increased the number of authorized shares of common stock and preferred stock to 500 million shares and 25 million shares from 100 million shares and 5 million shares, respectively. None of the preferred stock has been issued.

Rights to purchase preferred stock. On January 28, 1986, the Company declared a dividend distribution of one preferred stock purchase right on each outstanding share of common stock, payable as of February 7, 1986 to stockholders of record on that date.

The rights will not become exercisable until the close of business ten days after a public announcement that a person or group has acquired 20 per cent or more of the Company's common stock or a public announcement or commencement of a tender or exchange offer which would result in a person or group acquiring 30 per cent or more of the Company's common stock. Once exercisable, each right would entitle stockholders to buy $\frac{1}{100}$ of a share of Series A Junior Participating Preferred Stock at an exercise price of $150. The Company authorized 1.6 million shares of the Series A Preferred Stock.

If the Company is acquired in a merger or other business combination transaction, each right then exercisable will entitle its holder to purchase that number of shares of the acquiring company's common stock which has a market value equal to twice the right's exercise price. In addition, if the Company were to be the surviving corporation in a merger or other business combination transaction with a 20 per cent stockholder, or such stockholder were to engage in certain self-dealing transactions with or through the Company, each right (other than rights owned by the 20 per cent holder, which will thereupon become null and void) will entitle its holder to purchase that number of shares of the Series A Preferred Stock which has a market value equal to twice the right's exercise price. The Company may redeem the rights for 10 cents per right prior to the close of business on the tenth day after a public announcement that 20 per cent or more of the Company's common stock has been acquired by a person or group. The rights will expire on February 7, 1996, unless redeemed at an earlier date.

1984 Equity Compensation Plan and Performance Unit Plan. Under the 1984 equity compensation plan, 1.2 million shares of common stock, as well as 1.5 million shares available under a previous stock option plan, were initially reserved for issuance upon the exercise of stock options or related stock appreciation rights (SARs) and for payment of stock awards. At year end 1986, 2.1 million shares remained in reserve and were available for grant. Under this plan, ten-year incentive stock options, non-qualified stock options, and SARs and tax benefit rights (TBRs) in tandem with stock options may be granted. Options granted in 1986 and in prior years are generally exercisable one year from the date of grant.

In 1986, 1985, and 1984, the Company granted SARs and TBRs to officers in tandem with certain stock option grants. With respect to SARs and TBRs, less than $1 million was paid to participants in each of the three years.

Under the 1984 performance unit plan, performance units are earned based on measurements of Company performance determined by the Personnel and Compensation Committee of the Board of Directors. Approximately $5 million was earned in each of the last three years.

	1986		1985		1984	
Stock options	Shares (In thousands)	Option price	Shares (In thousands)	Option price	Shares (In thousands)	Option price
Balance at beginning of year	**1,537**	**$24.44-59.75**	1,644	$24.44-59.75	1,625	$24.44-70.44
Granted	**233**	**64.63-79.63**	294	48.00-49.81	246	51.94
Exercised	**(786)**	**24.44-64.63**	(216)	24.44-51.94	(133)	24.44-51.50
Expired and cancelled	**(24)**	**29.38-76.81**	(185)	29.38-58.82	(94)	29.38-70.44
Balance at end of year	**960**	**$24.44-79.63**	1,537	$24.44-59.75	1,644	$24.44-59.75

The quarterly dividend was 62 cents per share in 1986 and 59 cents per share in 1985 and 1984, or an annual rate of $2.48 per share in 1986, compared with $2.36 in 1985 and 1984. Dividends declared were $186 million in 1986, $176 million in 1985, and $175 million in 1984.

Changes in outstanding common stock	Shares (In thousands)			Amounts (In millions)		
	1986	1985	1984	**1986**	1985	1984
Balance at beginning of year	**74,577**	74,371	74,247	**$929**	$922	$919
Common stock issued, primarily options exercised	**867**	206	124	**40**	7	3
Common stock purchased and retired	**(624)**	—	—	**(8)**	—	—
Balance at end of year	**74,820**	74,577	74,371	**$961**	$929	$922

The Halston III salmon colored, two-piece ensemble in rayon damask shown on the opposite page is only one of JCPenney's "modish" looks for 1987 with wide shoulders, soft full sleeves, and circle skirt. He makes a colorful statement in a traditional Stafford sport coat and coordinated slacks.

There were approximately 57 thousand stockholders of record at year end 1986. One of these stockholders was the savings and profit-sharing retirement plan which had 118 thousand participants and held 10.1 million shares of the Company's common stock, representing about 14 per cent of the shares outstanding.

Additional Financial Data

Credit sales	1986 Amounts (In billions)	1986 Per cent of eligible sales	1985 Amounts (In billions)	1985 Per cent of eligible sales	1984 Amounts (In billions)	1984 Per cent of eligible sales
JCPenney credit card	**$7.0**	**50.0**	$6.5	49.2	$5.9	45.7
American Express, MasterCard, and Visa	**1.2**	**8.2**	1.1	8.2	1.0	7.4
Total	**$8.2**	**58.2**	$7.6	57.4	$6.9	53.1

Eligible sales exclude sales in Belgium.

Approximately 86 per cent of sales on the JCPenney credit card were made in accordance with the regular plan and the balance in accordance with the major purchase plan.

At year end, the number of JCPenney credit accounts with outstanding balances was 16 million under the regular plan and 2.3 million under the major purchase plan. The average balances and maturities are shown in the table below:

	Average account balances			Average maturities (In months)		
	1986	1985	1984	**1986**	1985	1984
Regular plan	**$192**	$200	$194	**4.4**	4.5	4.4
Major purchase plan	**$521**	$503	$470	**10.4**	10.8	11.9
All	**$233**	$238	$229	**5.2**	5.3	5.4

Key JCPenney credit information (In millions)	**1986**	1985	1984
Customer receivables			
Regular plan	**$3,110**	$3,122	$2,792
Major purchase plan	**1,181**	1,111	984
Total customer receivables	**$4,291**	$4,233	$3,776
Number of accounts with balances	**18.3**	17.6	16.5
Finance charge revenue	**$ 703**	$ 671	$ 587
Net bad debts written off	**$ 153**	$ 101	$ 71
Per cent of customer charges	**2.0**	1.4	1.1
Provision for doubtful accounts	**$ 160**	$ 109	$ 65
Accounts 90 days or more past due as a per cent of customer receivables	**2.5**	2.1	1.8

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses.

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $445 million in 1986, as compared with $442 million in 1985 and $465 million in 1984.

Interest expense (In millions)	**1986**	1985	1984
Short term debt	**$ 64**	$ 70	$108
Long term debt	**314**	313	282
Income on short term investments	**(27)**	(22)	(41)
Other, net	**(1)**	9	1
Interest expense, net	**$350**	$370	$350

Rent expense (In millions)	**1986**	1985	1984
Minimum rent on noncancellable operating leases	**$190**	$195	$192
Rent based on sales	**42**	45	45
Minimum rent on cancellable personal property leases	**116**	113	80
Real estate taxes and common area costs	**95**	82	73
Total	**$443**	$435	$390

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 25 years; however, most leases will be renewed or replaced by leases on other premises.

Minimum annual rents under noncancellable leases and subleases (In millions)	Gross rents	Net rents*
1987	$ 184	$ 119
1988	177	115
1989	172	111
1990	163	105
1991	155	100
Thereafter	1,567	1,078
Total	$2,418	$1,628
Present value		$ 800
Weighted average interest rate		10%

**Rents are shown net of their estimated executory costs which are principally real estate taxes, maintenance, and insurance.*

Retirement plans (In millions)	**1986**	1985*	1984*
Pension			
Service cost	**$ 30**		
Interest cost	**66**		
Actual return on assets	**(137)**		
Amortization	**19**		
Pension expense (credit)	**(22)**	$ (4)	$26
Savings and profit-sharing expense	**51**	40	37
Total	**$ 29**	$36	$63

**Breakdown of pension expense (credit) not available.*

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. Benefits under the principal pension plan are 1.5 per cent of final average pay for each year of credited service to normal retirement age up to a maximum of 30 years, less up to 50 per cent of an employee's estimated Social Security benefit, as computed under the plan.

In 1986, the Company adopted Financial Accounting Standards Board (FASB) Statement Number 87, Employers' Accounting for Pensions. Prior years' financial statements have not been restated. The impact of adopting such statement did not materially affect the results of operation of the Company since prior periods' actuarial methods and assumptions were substantially consistent with those prescribed by FASB Statement 87.

The following table sets forth the funded status of the principal pension plan and the supplemental retirement program:

	December 31		
Pension plans funded status (In millions)	**1986**	1985	1984
Present value of accumulated benefits			
Vested	**$ 564**	$486	$435
Non-vested	**60**	30	36
	$ 624	$516	$471
Present value of actuarial benefit obligation	**$ 866**	$627	$678
Net assets at fair market value	**1,019**	903	737
Excess assets	**$ 153**	$276	$ 59
Key assumptions			
Actuarial method	**PUC***	PUC*	PUC*
Rate of return on plan assets	**9.5%**	9.5%	8.5%
Discount rate	**9.0%**	9.5%	8.5%
Salary progression rate	**6.0%**	6.0%	6.0%

**Projected unit credit.*

The present value of accumulated benefits is based on compensation and service to date. The present value of the actuarial benefit obligation considers estimates of future compensation, but not future service, and is used to determine pension expense (credit) and funding. No contribution was required or made in the past three years.

In the early years, shoe sales were expected to be approximately 25 per cent of total store sales. The shoe department was also seen as the ideal training ground for associates of demonstrated potential. Here they had the opportunity to work with fashion merchandise as well as core merchandise for men, women, and children. If you could run a successful shoe department, you could run a store, so the thinking went.

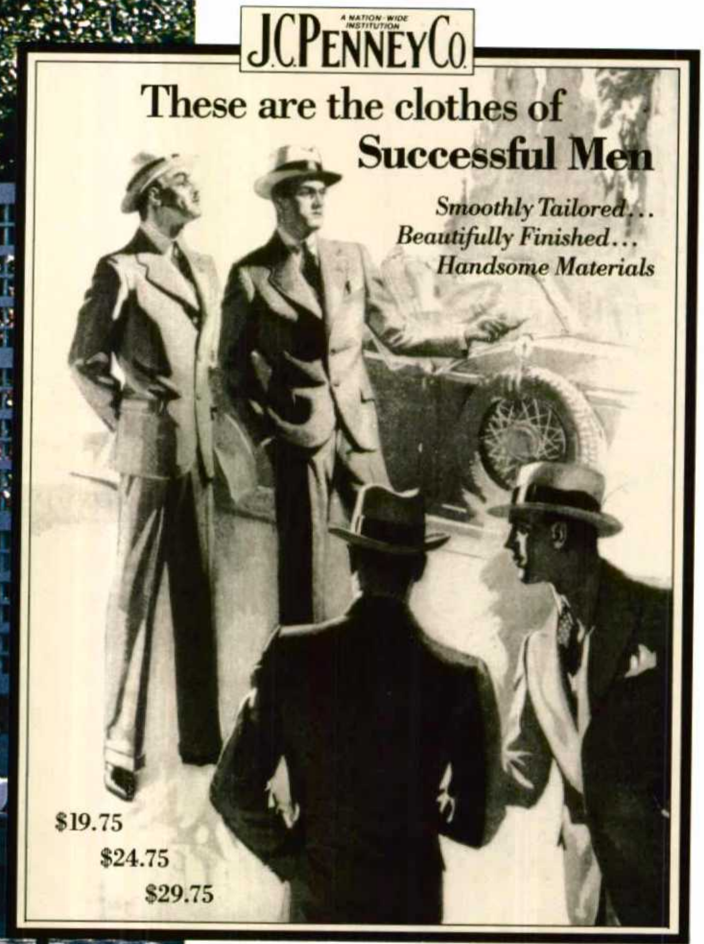
Tassel loafers and brick red boating shoes for men are available today through both our stores and catalog.

Certain changes in plan assets and in the actuarial benefit obligation are not recognized as they occur. In addition, at the date of adopting FASB Statement 87 the Company had an unrecognized excess of plan assets over the actuarial benefit obligation. These unrecognized effects almost completely offset the end of year excess of plan assets over the benefit obligation of $153 million and will be systematically amortized over subsequent periods.

The savings and profit-sharing retirement plan encourages savings by employees through the allocation of 4.5 per cent of the Company's available profits, as defined in the plan, to participants who make deposits under the plan. The eligibility requirement is the same as that of the Company's principal pension plan.

The Company contributed approximately $8 million, $9 million, and $8 million in 1986, 1985, and 1984, respectively, to the savings and profit-sharing retirement plan under the Employee Stock Ownership feature of the Internal Revenue Code. The contribution is invested in Company common stock and allocated equally among all eligible employees. The amount of the contribution reduces federal income taxes otherwise payable. The Tax Reform Act of 1986 eliminates this Employee Stock Ownership feature effective December 31, 1986.

The Company provides post-retirement health care benefits to retired employees and their dependents meeting certain eligibility requirements. The Company recorded expenses for these benefits as incurred in the amounts of $9 million, $7 million, and $7 million in 1986, 1985, and 1984, respectively.



Our group photo circa 1987 could also be captioned "These are the clothes of Successful Men." Colorful leisure wear for men is among our strongest merchandise groups, with coordinated lines under such labels as Hunt Club, St. John's Bay, Lee Wright, and Kenny Rogers. The ad is circa 1930.

	Savings and profit-sharing			Pension		
	December 31			December 31		
otal assets and equity (In millions)	**1986**	1985	1984	**1986**	1985	1984
CPenney common stock (10, 12, and 12 million shares at cost: $442, $500, and $505)	**$ 731**	$ 663	$569	**$ —**	$ —	$ —
unds with insurance companies	**604**	391	290	**—**	—	—
quity securities (cost: $21, $20, $18, $643, $521, and $420)	**43**	36	26	**743**	624	445
ixed income investments (cost: $6, $3, $5, $161, $173, and $203)	**6**	3	5	**165**	181	205
ther investments (cost: $84, $81, and $66)	**—**	—	—	**103**	98	81
ther assets, net	**40**	50	32	**8**	—	6
Net assets	**$1,424**	$1,143	$922	**$1,019**	$903	$737

Changes in fair value of retirement plans' net assets (In millions)	Savings and profit-sharing December 31 **1986**	1985	1984	Pension December 31 **1986**	1985	1984
Net assets at beginning of year	**$1,143**	$ 922	$ 959	**$ 903**	$737	$735
Company contribution	**51**	40	37	**—**	—	—
Participants' contributions	**120**	102	93	**—**	—	—
Investment income	**115**	70	57	**142**	97	73
Unrealized appreciation (depreciation) of investments	**168**	116	(118)	**(5)**	86	(53)
Benefits paid	**(173)**	(107)	(106)	**(21)**	(17)	(18)
Net assets at end of year	**$1,424**	$1,143	$ 922	**$1,019**	$903	$737

Income tax expense (In millions)	**1986**	1985	1984
Current			
Federal	**$140**	$ 76	$100
State and local	**15**	8	13
	155	84	113
Deferred			
Federal	**240**	187	155
State and local	**33**	26	22
	273	213	177
Total income tax expense	**$428**	$297	$290
Effective tax rate	**46.3%**	43.5%	41.7%

Reconciliation of tax rates	Amounts (In millions) **1986**	1985	1984	Per cent of pre-tax income **1986**	1985	1984
Federal income tax statutory rate	**$426**	$314	$321	**46.0**	46.0	46.0
Investment tax credits*	**(7)**	(26)	(28)	**(.8)**	(3.7)	(4.0)
State and local income taxes, less Federal income tax benefit	**26**	18	19	**2.8**	2.7	2.7
Employee stock ownership plan credits	**(8)**	(9)	(8)	**(.9)**	(1.3)	(1.1)
Capital gains benefits and other	**(9)**	—	(14)	**(.8)**	(.2)	(1.9)
Total income tax expense	**$428**	$297	$290	**46.3**	43.5	41.7

**Repealed by the Tax Reform Act of 1986, retroactive to January 1, 1986, except for assets contracted for prior to that date.*

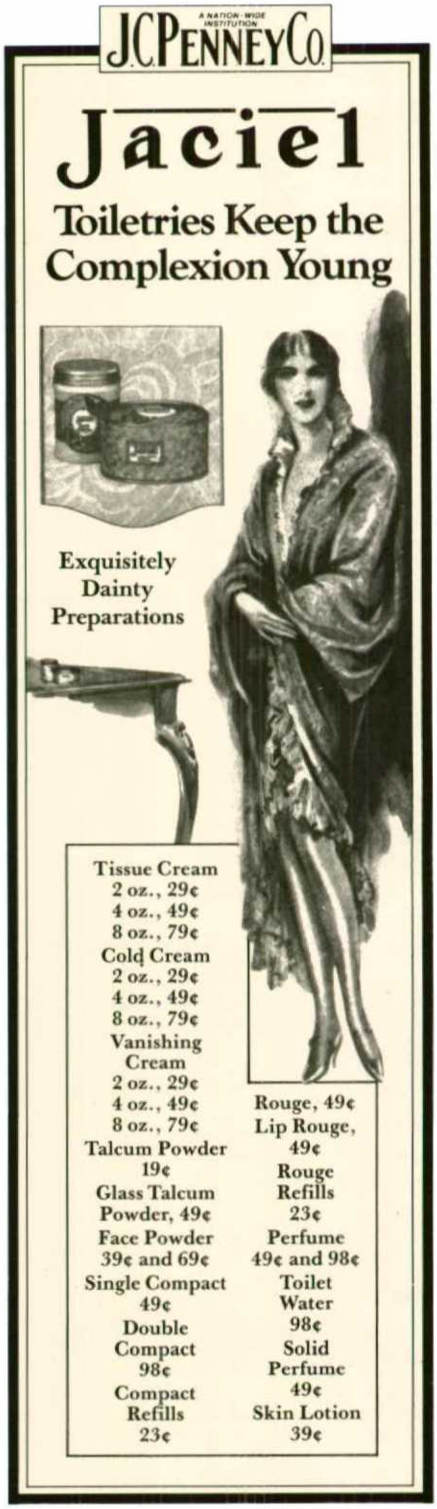
Taxes other than income taxes, over half of which were payroll taxes, totaled $326 million in 1986, up from $295 million in 1985 and $263 million in 1984.

Deferred taxes consist principally of the tax effects of deferred gross profit on the balances due on installment sales, accelerated depreciation, and accounting for leases.

The Company acquired certain assets under leveraged lease arrangements and purchased tax benefits under the provisions of the Economic Recovery Tax Act. For income tax purposes, the Company received certain income tax deductions and credits that were used to reduce income taxes otherwise payable. Deferred taxes were provided to reflect the reversal of these tax benefits in future years.

The Tax Reform Act of 1986 no longer permits the deferral of income taxes on revolving credit installment sales after fiscal 1986 and provides that deferred taxes previously established are payable over the next four years. At the end of 1986, the total amount due was about $600 million. The amount due within one year, or 15 per cent, is shown in the current portion of deferred taxes, and the balance is included in long term deferred taxes as shown on the balance sheet.

The FASB issued an exposure draft in 1986 which would require an asset/liability approach to accounting for temporary differences between financial statement income and taxable income. Under this proposal, deferred taxes would be provided based on expected tax rates, and adjustments for tax rate changes would be permitted. If the asset/liability method had been applied in 1986, deferred taxes reflected on the balance sheet would have been reduced by approximately $300 million, and stockholders' equity would have increased by the same amount. The proposed standard would permit either a restatement of previously issued financial statements or the inclusion of the total effect as a separate component of net income in the year the standard becomes effective.



In the 1920's, when we first advertised our own line of women's cosmetics and treatment products, called Jaciel, the headline read "Quality Comes First in All Our Plans."

Our reputation for quality is, we believe, one very good reason why shoppers are attracted to our fine jewelry, which is a consistently strong department in our larger stores.

Fragrances, like fine jewelry, represent an area on which we're placing greater emphasis. New to our line in 1986 was "First" from Van Cleef & Arpels.

Quarterly Data (Unaudited)

(In millions except per share data)	First 1986	First 1985	First 1984	Second 1986	Second 1985	Second 1984	Third 1986	Third 1985	Third 1984	Fourth 1986*	Fourth 1985	Fourth 1984
Sales	**$3,045**	2,802	2,752	**3,221**	3,014	3,058	**3,485**	3,245	3,211	**4,989**	4,686	4,430
Per cent increase (decrease)	**8.7**	1.8	15.7	**6.9**	(1.4)	16.9	**7.4**	1.1	10.2	**6.5**	5.8	6.3
Gross margin, per cent of sales	**34.4**	33.7	34.1	**31.8**	31.2	32.1	**34.4**	34.2	34.8	**33.7**	32.3	31.3
Selling, general, and administrative expenses, per cent of sales	**26.4**	27.4	27.1	**26.3**	26.7	26.7	**25.9**	26.3	26.5	**22.5**	22.0	21.7
Retail income	**$ 85**	48	67	**50**	25	44	**109**	95	96	**253**	218	200
Income before extraordinary charge	**$ 87**	50	69	**57**	30	49	**116**	93	101	**270**	224	216
Per cent increase (decrease)	**73.1**	(26.6)	18.6	**92.9**	(40.4)	(10.7)	**24.5**	(7.4)	6.6	**20.5**	3.8	(16.6)
Per share												
Income before extraordinary charge	**$ 1.16**	.67	.92	**.75**	.40	.66	**1.55**	1.24	1.34	**3.60**	3.00	2.89
Dividends	**$ .62**	.59	.59	**.62**	.59	.59	**.62**	.59	.59	**.62**	.59	.59
Common stock price range												
High	**$ 72**	51	55	**86**	52	55	**84**	50	55	**87**	58	54
Low	**$ 57**	46	48	**68**	46	47	**70**	46	50	**72**	48	45

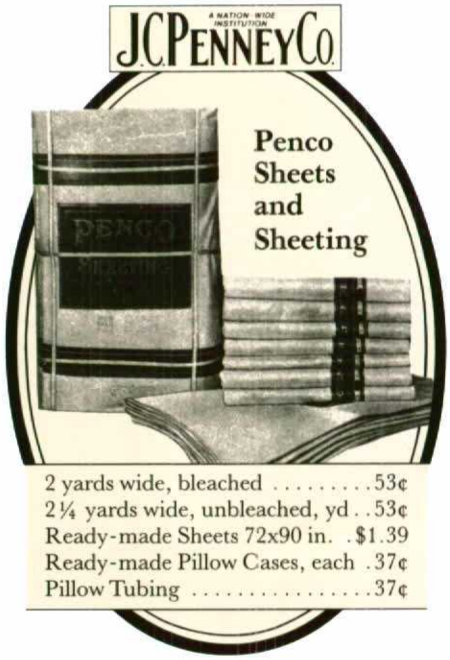
**Contains 14 weeks compared with 13 weeks in the previous two years.*

Five Year Financial Summary

J.C. Penney Company, Inc. and Consolidated Subsidiaries

Results for year (In millions)	1986	1985	1984	1983	1982*
Sales	**$14,740**	13,747	13,451	12,078	11,414
Sales of JCPenney stores and catalog	**$13,390**	12,634	12,372	11,033	10,364
Per cent increase	**6.0**	2.1	12.1	6.5	2.0
Per cent increase in general merchandise inflation	**1.2**	2.0	1.0	2.7	2.8
Gross margin, per cent of sales	**33.6**	32.8	32.9	33.3	32.5
Selling, general, and administrative expenses, per cent of sales	**25.0**	25.1	25.1	24.6	24.2
Interest, net, per cent of sales	**2.3**	2.7	2.6	2.2	2.3
Depreciation and amortization	**$ 229**	212	198	153	144
Retail income before income taxes	**$ 925**	683	697	786	706
Per cent of sales	**6.3**	5.0	5.2	6.5	6.2
Income taxes	**$ 428**	297	290	345	302
Retail income	**$ 497**	386	407	441	404
Per cent increase (decrease)	**28.8**	(5.1)	(7.7)	9.0	11.6
Per cent of sales	**3.4**	2.8	3.0	3.7	3.5
Income before extraordinary charge	**$ 530**	397	435	467	430
Per cent of stockholders' equity	**13.1**	10.4	12.2	14.5	14.7
Per share					
Income before extraordinary charge	**$ 7.06**	5.31	5.81	6.25	5.87
Dividends	**$ 2.48**	2.36	2.36	2.16	2.00
Stockholders' equity	**$ 58.01**	54.32	51.26	47.93	43.94
Financial position (In millions)					
Receivables, net	**$ 4,614**	4,504	4,019	3,673	3,624
Merchandise inventories	**$ 2,168**	2,298	2,383	1,993	1,594
Properties, net	**$ 2,919**	2,812	2,608	2,358	1,987
Capital expenditures	**$ 350**	426	505	443	287
Total assets	**$11,188**	10,522	9,793	8,860	8,175
Total debt	**$ 3,736**	3,839	3,774	3,149	2,981
Stockholders' equity	**$ 4,340**	4,051	3,812	3,559	3,228
Number of shares outstanding at year end (In millions)	**75**	75	74	74	73
Number of employees at year end (In thousands)	**176**	177	180	175	173

**The amounts for 1982 were restated to exclude discontinued automotive operations.*



Cosmetics and treatment products, such as the Frances Denney line and our own Fernand Aubrey, represent areas of concentration for our department stores.

Five Year Operations Summary

J.C. Penney Company, Inc. and Consolidated Subsidiaries

	1986	1985	1984	1983	1982
JCPenney metropolitan market department stores					
Number of stores	**574**	566	565	553	540
Gross selling space (In million sq. ft.)	**89.6**	88.8	88.5	85.8	84.3
Sales (In millions)	**$10,150**	9,524	9,200	8,082	7,480
Sales per gross square foot	**$ 114**	107	106	95	89
JCPenney metropolitan market soft line stores					
Number of stores	**133**	163	184	201	236
Gross selling space (In million sq. ft.)	**6.5**	7.9	8.7	9.5	10.8
Sales (In millions)	**$ 851**	858	893	906	948
Sales per gross square foot	**$ 120**	103	98	92	87
JCPenney geographic market stores					
Number of stores	**696**	753	821	843	855
Gross selling space (In million sq. ft.)	**18.4**	18.8	19.2	19.0	19.0
Sales (In millions)	**$ 1,887**	1,783	1,820	1,637	1,536
Sales per gross square foot	**$ 101**	93	95	86	80
Catalog					
Number of sales facilities	**1,825**	1,733	1,804	1,799	1,812
Number of distribution centers	**6**	6	6	6	6
Distribution space (In million sq. ft.)	**11.4**	11.4	11.4	11.4	11.4
Sales (In millions)	**$ 2,332**	2,000	1,928	1,831	1,701
Drug stores					
Number of stores	**390**	374	369	359	353
Gross selling space (In million sq. ft.)	**4.1**	4.0	3.9	3.8	3.8
Sales (In millions)	**$ 802**	702	649	586	536
Sales per gross square foot	**$ 204**	180	170	157	147
Belgian stores					
Number of stores	**52**	53	55	58	62
Gross selling space (In million sq. ft.)	**3.3**	3.3	3.4	3.5	3.6
Sales (In millions)	**$ 623**	472	488	513	565
Sales per gross square foot	**$ 75**	56	56	62	70
Number of JCPenney stores	**1,403**	1,482	1,570	1,597	1,631
Number of total stores	**1,845**	1,909	1,994	2,014	2,046

Catalog sales made through JCPenney stores and drug stores are included in the sales of those stores, as well as in Catalog. Sales per gross square foot include only those sales from stores in operation throughout both the current and prior year.

Soft home furnishings have always been one of the Penney Company's greatest strengths. The towels shown here bear the JCPenney label and are available in a breadth of colors designed to coordinate with other bed and bath accessories.

Back in 1926, when the ad on the opposite page appeared, many women were still making their own sheets rather than buying them pre-made. JCPenney supplied both needs with sheets and sheeting under the Penco brand.

Public Affairs

The Company made significant progress during 1986 in its commitment to contributing to the health and vitality of the communities in which we do business. Involvement in this commitment occurred at all levels of the organization in such broad areas of concern as charitable contributions, community programs, and minority affairs.

Charitable Contributions. Charitable contributions are largely directed to organizations which serve a broad spectrum of the community and those in which our employees are involved. About 75 per cent of the contributions are made by local JCPenney units to community based organizations with the remaining 25 per cent to national organizations that impact communities in which we operate.

The 1986 charitable contributions totaled $12.8 million and included $3.4 million contributed by the Company to more than 1,000 local United Ways. JCPenney employees pledged an additional $4.4 million in United Way support. These results were accomplished through the leadership of William R. Howell, Chairman of the New York City United Way Campaign, and Robert B. Gill, JCPenney Corporate Campaign Chairman.

The corporate matching gift program, which supports higher education, increased 36 per cent to $342,000.

Community Programs. Several Company programs encouraged employees to become involved in their communities. Through "Associate Involvement Funds," employees requested grants for organizations for which they volunteered. The 1986 JCPenney Community Service Award Program recognized employees for outstanding volunteer activities and provided more than $20,000 in cash awards to the organizations for which employees volunteered. Grand award winner Patricia Plumtree of Boise, Idaho, received $5,000 for the Alzheimer's Disease and Related Disorders Association (ADRDA). She went on to win the retailing industry's top award for community service and an additional $5,000 for ADRDA.

Minority Affairs. Through the leadership of David F. Miller, Chairman of the National Minority Supplier Development Council (NMSDC), the Company expanded its involvement in minority purchasing activities. Nationwide, JCPenney representatives were identified to work with the NMSDC network of regional minority purchasing councils. At Company headquarters, the Minority Purchasing Advisory Group provided overall support and direction for the program. Company efforts to identify prospective minority suppliers included participation at minority business opportunity fairs and conferences.

Purchases from minority-owned companies increased 58 per cent over 1985 to $193.8 million, representing relationships with 1,336 suppliers. An additional $4.3 million was spent on advertising in minority media, and active accounts were maintained with 13 minority banks. The Company recognized five JCPenney employees and seven minority suppliers for their outstanding contributions to our program through the JCPenney Minority Supplier Development Awards Program.

Employment. The Company adheres to a policy of Equal Employment Opportunity. Year end employment totaled approximately 176 thousand, of which 169,198 were employed in the U.S., excluding unconsolidated subsidiaries. The following summary delineates minority and female representation in job categories defined in the Employment Information Report EEO-1 of the EEOC.

	Total employed		Per cent female		Per cent minority	
Employment information	**1986**	1982	**1986**	1982	**1986**	1982
Officials, managers, and professionals	**22,015**	23,451	**45.3**	40.7	**9.6**	8.5
Management trainees	**925**	1,002	**53.4**	47.9	**17.8**	16.6
Sales workers	**85,816**	83,994	**86.8**	84.0	**14.0**	11.0
Office and clerical workers	**26,692**	28,649	**90.1**	91.7	**17.8**	15.0
Technicians, craft workers, and operatives	**22,290**	18,997	**81.9**	71.4	**17.3**	15.0
Laborers and service workers	**11,460**	16,226	**39.6**	39.4	**23.1**	18.6
Total	**169,198**	172,319	**77.9**	73.6	**15.1**	12.5

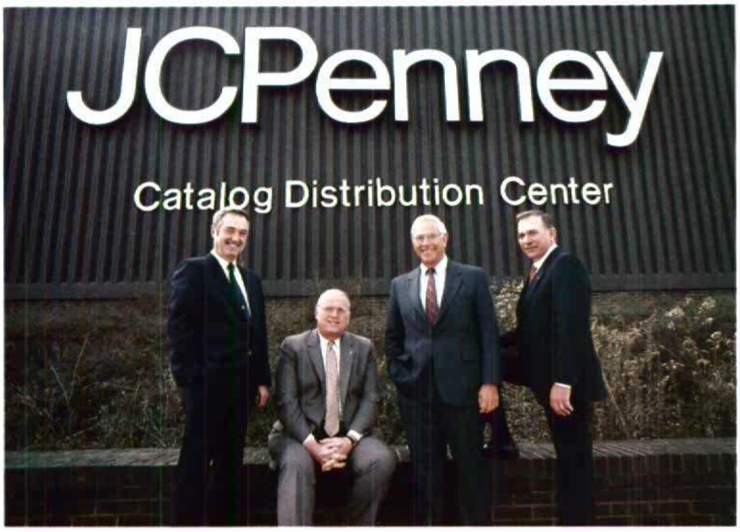
Ladies' hose sold from 4 cents to 35 cents a pair back in 1903. Silk hose was advertised for $1.49 in 1928, and nylon hose was introduced by JCPenney in 1940.

Like hosiery, women's sleepwear and lingerie have been staples of the Penney merchandise assortment from the earliest days.

The luxurious, brushed-back satin gown shown on the opposite page is from one of our new, moderately priced contemporary lines.

The bedding collection, called Victoria, is one of our best sellers through both stores and catalog. Coordinated bath merchandise is shown on page 29.

The November Board of Directors meeting was held at the catalog distribution center in Columbus, Ohio. In addition to touring this facility, the directors visited the adjacent telephone sales center, one of 14 serving the nation. The Columbus distribution center ships 45,000 orders to customers on a typical day and twice as many orders during the peak holiday selling period in December. During any given season, some 160,000 different merchandise items are stocked.



Rodney M. Birkins (third from left), senior vice president and director of catalog, with (left to right) James J. Hill, manager, catalog centers operations; Peter G. Fenlon, director of catalog operations; and Roger W. Kerkman, manager, Columbus center.

Director William M. Ellinghaus (third from left) listens to associate John J. Bobeck (foreground) along with: (left to right) Albert W. Driver, Jr., senior vice president, secretary and general counsel; Frank Engels, director of telemarketing and direct response programs; John A. McConville, senior vice president and director of merchandise; and Patrick R. Clark, assistant operations manager.

Vice chairman Robert B. Gill (center) in the stock and order filling area with associates (left to right) Bruce A. Parks, Jo Ann Althoff, and James E. Wheaton, Jr.

Director Walter B. Wriston (foreground) with (left to right) director and former chairman Donald V. Seibert; Peter G. Fenlon; Jerry W. Pitts, loss prevention manager, Columbus center; and Ralph B. Henderson, executive vice president.

William R. Howell, chairman of the board, at the entrance to the facility.

Director Clifton C. Garvin, Jr. (right) in the receiving area with associate James E. Reis.

Director Boris Yavitz (left) with David F. Miller, president, stores and catalog.

Directors Colby H. Chandler and Juanita M. Kreps in the order filling area.

Directors David B. Meeker and Jane C. Pfeiffer with associates Patricia A. Howell (foreground) and Sandra J. Hoyle.

Executive vice president Thomas J. Lyons.

J.C. Penney Company, Inc.

Directors

Colby H. Chandler[3,4]
Chairman and Chief Executive Officer, Eastman Kodak Company

William M. Ellinghaus[1,4]
Formerly President, American Telephone and Telegraph Company

Clifton C. Garvin, Jr.[1,2]
Formerly Chairman and Chief Executive Officer, Exxon Corporation

Robert B. Gill
Vice Chairman of the Board

William R. Howell
Chairman of the Board

Vernon E. Jordan, Jr.[2,4]
Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld

Juanita M. Kreps[1,4]
Economist and Educator
Formerly United States Secretary of Commerce

David B. Meeker[1,2,5]
Formerly Chairman of the Board, Hobart Corporation

David F. Miller
President of JCPenney Stores and Catalog

Edward J. Mortola[3,4]
Chancellor, Pace University

George Nigh
Formerly Governor of Oklahoma

Jane C. Pfeiffer[2,3]
Independent Management Consultant

Donald V. Seibert[2,3,5]
Formerly Chairman of the Board

Joseph D. Williams[5]
Chairman and Chief Executive Officer, Warner-Lambert Company

Walter B. Wriston[1,3,5]
Formerly Chairman, Citicorp and Citibank, N.A.

Boris Yavitz[1,2,5]
Paul Garrett Professor of Public Policy and Business Responsibility and Former Dean, Graduate School of Business, Columbia University

Office of the Chairman

William R. Howell
Chairman of the Board

Robert B. Gill
Vice Chairman of the Board

David F. Miller
President of JCPenney Stores and Catalog

Ralph B. Henderson
Executive Vice President

Thomas J. Lyons
Executive Vice President

Senior Vice Presidents

Rodney M. Birkins
Director of Catalog

Robert Capone
Director of Technical Operations

Albert W. Driver, Jr.
Secretary and General Counsel

Richard T. Erickson
Director of Corporate Personnel

A. Scott Frahlich
Director of JCPenney Stores

John A. McConville
Director of Merchandise

Robert E. Northam
Chief Financial Officer

John A. Wells
Director of Corporate Marketing

Vice Presidents

Robert O. Amick
Controller

A. Howard Amon, Jr.
Director of Real Estate

Charles L. Brown
Director of Auditing

James P. Bryant
Director of Corporate Taxes

Joseph J. DeMelio
Director of Insurance

Thomas B. Fox
Director of European Operations

William D. Friel
Director of Systems and Data Processing

William R. Johnson
Director of Public Affairs and Company Communications

Robert J. Keller
Director of Construction Services

Donald A. McKay
Treasurer

C. Kenneth Ogg
Director of Operations, Services and Inventory Management for JCPenney Stores

Ted L. Spurlock
Director of Credit and Consumer Banking Services

George M. Stone
Director of Government Relations

Michael Todres
Director of Distribution

Regional Vice Presidents

James E. Oesterreicher
Western Region

Terry S. Prindiville
Southwestern Region

R.H. Seaman
Southeastern Region

Richard C. Sherwood
Eastern Region

W. Barger Tygart
Central Region

Assistant Controllers

William J. Alcorn
Joseph W. Fox
Leo A. Gispanski

Assistant Secretaries

Frank J. Bonet
Cornelius T. Dorans
John V. Faltermeier
Margaret R. Johnson
Archibald E. King, Jr.
Richard M. Kleid
Richard P. Rubenoff
J. David Silvers

Assistant Treasurers

Robert B. Cavanaugh
Thomas A. Clerkin
John B. Hebard

Transfer Agents

J.C. Penney Company, Inc.
Securityholder Services
Pittsburgh Accounting Center
P.O. Box 407
Pittsburgh, Pennsylvania 15230

Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006

Registrars

Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006

Wilmington Trust Company
Wilmington, Delaware 19899

Exchange Listings

The New York Stock Exchange
(Ticker symbol—JCP)

Brussels and Antwerp Stock Exchanges

Supplemental Information

Copies of the Company's Form 10-K annual report for 1986 to the Securities and Exchange Commission and consolidated Employer Information Reports EEO-1 for 1986 year end to the United States Equal Employment Opportunity Commission will be made available upon request to:

Ms. Ann R. Roberts
J.C. Penney Company, Inc.
Public Relations
1301 Avenue of the Americas
New York, New York 10019
Phone: (212) 957-8170

Copies of J.C. Penney Financial Corporation's annual report are available from:

Mr. Kelley H. Mote
J.C. Penney Financial Corporation
P.O. Box 955
New York, New York 10116
Phone: (212) 957-9244

Inquiries about your stockholder record should be forwarded to:

Mr. Douglas N. Stover
J.C. Penney Company, Inc.
Securityholder Services
Pittsburgh Accounting Center
P.O. Box 407
Pittsburgh, Pennsylvania 15230
Phone: (412) 854-1000, Ext. 487

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1 Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors the independent auditors to be employed for the purpose of conducting the annual audit of the Company's accounts, discusses with the auditors the scope of their examination, reviews the Company's financial statements and the auditors' report with Company personnel and the auditors, determines whether the auditors have received all the explanations and information they had requested, and invites the recommendations of the auditors regarding internal controls and other matters.

2 Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.

3 Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.

4 Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long-term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee which acts under certain of the Company's incentive compensation and retirement plans.

5 Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans.

All of the committees described above are composed entirely of outside directors.

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J.C. Penney Company, Inc.
1986 Annual Report